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BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Periodic Reporting **Docket No. RM2012-2**
(Proposals Sixteen through Twenty)

COMMENTS OF PITNEY BOWES INC.

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I. INTRODUCTION

Pursuant to Order No. 1053, Pitney Bowes Inc. (Pitney Bowes) respectfully submits these comments in response to the November 30, 2011 Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytic Principles (Proposals Sixteen through Twenty)(Petition). These comments address the changes described in Proposal Eighteen.

Pitney Bowes supports the proposed change to the model's outgoing primary downflow densities: it is similar to a change that PB supported and the PRC approved to the First-Class Mail letter cost model in Docket No. RM2011-5. The Postal Service's proposal to incorporate Flat Sequencing System (FSS) processing into the First-Class Mail flats cost model, however, needs further refinement before it is approved.

II. DISCUSSION

A. Outgoing Primary Downflow Densities

Proposal 18, Modification 2 corrects a problem in estimating the cost of Mixed Area Distribution Center (MADC) flats. Specifically, the flats cost model is based upon a system wide estimate that the Outgoing Primary operation – the operation in which MADC flats are first sorted –sorts flats to 5-Digit ZIP Code twenty percent of the time.[1] *See* Prop18FCMFlatsRevised.xls, "PIECE DENSITIES."

This estimate is likely accurate for Single-Piece flats, which comprise the majority of pieces that are sorted in Outgoing Primary operations, because this mailstream includes "turnaround" mail (i.e., flats that will be delivered in the same Sectional Center Facility (SCF)

[1] Stated anther way, the downflow density shows that the next sortation would be incoming secondary.

area in which they are entered and for which the Outgoing Primary scheme may include sorts to separate 5-Digit bins). Very few MADC flats, however, are "turnaround" mail because mail preparation rules generally preclude intra-SCF flats from being entered at MADC rates. *See* Petition at 9-10. For this reason, it is unlikely that 20 percent of MADC flats are sorted directly to 5-Digit ZIP Code on Outgoing Primary schemes.

Consistent with the recently-approved change for letters, which Pitney Bowes supported, the Postal Service proposes to adjust the Outgoing Primary downflow for MADC flats to assume that these pieces are never sorted directly to 5-Digit. *See* Docket No. RM2011-5, Op. and Rec. Dec. at 4-5; Docket No. RM2011-5, Pitney Bowes Comments at 2-3. This estimate is necessary to compensate for the system wide estimate. It would be preferable to develop an Outgoing Primary downflow densities specific to MADC flats, however, the Postal Service's proposal is an improvement relative to the system wide estimate, is backed by sufficient operational logic, and should be approved.

B. Flat Sequencing System

To reflect the recent FSS deployment, FSS processing should be incorporated into the First-Class Mail Flats cost model. The Postal Service's approach for doing so – Proposal 18, Modification 1 – however, should be refined before the PRC approves it. As proposed, the Postal Service uses an FSS coverage factor of 20 percent; thus, the model estimates that nearly twenty percent of First-Class Mail flats receive their incoming secondary sortation on the FSS . *See Prop18FCMFlatsRevised.xls, "Switches,"* Cell E2.[2] This substantially overstates the percentage of First-Class Mail flats processed on FSS equipment in FY 2011. The use of this overstated coverage factor results in the model substantially overstating the proportion of First-

[2] More precisely, a 20 percent coverage factor means that the model will flow twenty percent of machinable flats that have not been rejected in a previous operation to the FSS for incoming secondary sortation.

Class Mail flats that was actually sorted on the FSS in FY 2011. This could continue in future years.

First, the Periodicals cost model filed in Proposal 18 suggests the coverage factor of 20 percent is overstated. That model appears to estimate that less than *ten percent* of "eligible" (i.e., non-High Density/Saturation) flats were sorted on the FSS in FY 2011. *See* Prop18PERFlatsRevised.xls, "FY11 Switches," Cells J4 and D32. This figure, less than half of the 20 percent factor proposed, is unsurprising. As discussed in the Postal Service's 2011 Annual Report to Congress (at 30), the Phase 1 FSS deployment covered less than fifty sites, a relatively small portion of zones and routes, was in its early stages at the beginning of FY 2011, and was not complete until late in the fiscal year:

> We also increased the percentage of flat mail sorted in delivery point sequence. As of Sept. 30, 100 flats sequencing machines had been deployed to cover nearly 1,400 zones and 43,000 routes. Twenty-three of the 46 sites have been operating six months or more. These sites cover more than 770 delivery zones and almost 20,000 routes. At these sites, 59% of flats on average are sorted in delivery point sequence with two sites scoring 79%.

U.S. Postal Service 2011 Annual Report to Congress, at 30. Additionally, given First-Class Mail service requirements, it is quite possible that First-Class Mail flats were less likely to be sorted on FSS than, for example, were Standard Mail flats.

Overstating the percentage of First-Class Mail flats that are sorted on FSS is not just a theoretical problem; it has a practical impact. Because the modeled productivity of the FSS (at least in FY 2011) is much less than that of the AFSM 100,[3] overstating the percentage of flats that are sorted in this FSS productivity overstates incoming secondary sorting costs. This

[3] According to the flats cost model, the FSS productivity (892 pieces per hour) was only a fraction of AFSM 100 incoming secondary productivity (3,036 pieces per hour). *See* Prop18FCMFlatsRevised.xls, "PRODUCTIVITIES."

depresses the CRA adjustment factor, which results in understated workshare cost avoidance estimates.[4]

The Commission should require the Postal Service to refine its proposal by providing verifiable class-specific estimates of the proportion of First-Class Mail flats that are processed on FSS. As it has done in the past, the Postal Service could incorporate these estimates into the model by using incoming secondary factors that reflect the fact that not all flats that the model flows to a particular piece of equipment for incoming secondary sorting are processed on that equipment. *See, e.g.*, Docket No. R2000-1, USPS-T-25 (Yacobucci) at 16.

III. CONCLUSION

Pitney Bowes appreciates the Commission's consideration of these comments.

Respectfully submitted:

/s/

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[4] For a discussion of how overmodeling incoming secondary operations understates workshare cost avoidances, *see, e.g.*, Docket No. RM2010-13, Pitney Bowes Comments, at 6.